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April 3, 2000

Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
445 - Twelfth Street, S.W.
Room TW-A325
Washington, D.C. 20554

RECEIVED
APR 3 2000
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: *Notice of Ex Parte Communication*
WT Docket No. 99-168

Dear Ms. Salas:

This letter serves as notice that on March 31, 2000, Peter Cramton and Larry Ausubel of Spectrum Exchange Group, LLC ("Spectrum Exchange"), along with the undersigned, met with Commission staff to discuss matters relating to Spectrum Exchange's proposal for a private auction to facilitate clearing incumbent broadcast stations from the 746-806 MHz band (the "700 MHz band") to allow for earlier initiation of new wireless services in that band. Commission staff present at the meeting were: Kathleen O'Brien Ham, Jim Schlichting, Diane Cornell and David Furth of the Wireless Telecommunications Bureau; Howard Shelansky, the FCC Chief Economist; and Evan Kwerel and Jonathan Levy of Office of Plans and Policy.

The attached written presentation was distributed at the meeting and served as the basis for the discussion, which centered around actions that Spectrum Exchange believes the Commission should take to facilitate clearing of the 700 MHz band.

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Ms. Magalie Roman Salas
April 3, 2000
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Pursuant to Section 1.1206(a), an original and one copy of this letter and attachment are being filed with your office. Please associate this letter with the file in the above-captioned proceeding.

Should you have any questions regarding this matter, please contact the undersigned.

Sincerely,

WILKINSON BARKER KNAUER, LLP

A handwritten signature in black ink, appearing to read 'J. Cohen', with a stylized flourish at the end.

By: Jonathan V. Cohen
Counsel for Spectrum Exchange Group, LLC

Attachment

cc (w/att.): Kathleen O'Brien Ham
Jim Schlichting
Diane Cornell
David Furth
Howard Shelanski
Evan Kwerel
Jonathan Levy



www.spectrum-exchange.com

ayopa
market design inc.

www.market-design.com

The Spectrum Exchange Auction

A presentation by

Spectrum Exchange Group, LLC

Peter Cramton, Chairman
Larry Ausubel, Co-President

31 March 2000

Spectrum Exchange Group, LLC

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Agenda

- Overview
- Spectrum Exchange's Opposition, filed March 10
- Retention of "Must Carry" Rights
- Mandatory Relocation
- The Spectrum Exchange Auction

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- Spectrum Exchange mission:
"To create value for the public by promoting the efficient exchange of spectrum."
- Spectrum Exchange formed by the principals of Market Design Inc., the world leader in the design of high-stake auction markets:
 - Peter Cramton, Chairman
 - Larry Ausubel, Co-President
 - Paul Milgrom, Co-President
 - Preston McAfee, Treasurer

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Overview

- FCC to auction UHF channels 60–69 on June 7, 2000
- Spectrum in this 700 MHz band is highly desirable, since it has excellent propagation characteristics (can penetrate walls, etc.)
- Best use is uncertain but will be either mobile voice and data or fixed high-speed data
- Spectrum has been scored by Congress to raise \$2.6 billion for Treasury
- Spectrum is encumbered by existing UHF broadcasters
- Spectrum is nearly worthless if UHF broadcasters do not terminate service
- Spectrum is worth *much* more if clear of incumbent broadcasters

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Overview (continued)

- Analog TV operations do not have to end until year-end 2006 at the earliest
- Efficient clearing is made difficult by the “hold-up” and “free-rider” problems
 - **Hold-up**: incumbent broadcasters likely to demand much more than the cost of retiring their service
 - **Free-rider**: many license holders benefit when one license holder clears a broadcaster
- Spectrum Exchange will conduct a private auction for the purpose of clearing the encumbered spectrum
- The Spectrum Exchange Auction will enable bidders in the FCC’s 700 MHz Auction to bid with confidence that the spectrum will be cleared at an early date — and at a known cost

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Spectrum Exchange’s Opposition, filed March 10

The Commission can facilitate clearing by doing the following:

- *Affirmation of ¶145*: If a broadcaster in channels 59–69 wishes to end its over-the-air analog broadcasting before the end of the statutory transition period and if the broadcaster satisfies the Commission’s criteria for clearing, the Commission should approve the broadcaster’s request
- *Establishment of mandatory relocation*: If a broadcaster in channels 59–69 does not wish to clear, but if a comparable station below channel 59 is willing to clear in its place, then the broadcaster in channels 59–69 should be obliged to relocate to the cleared lower channel
- *Retention of must carry*: Broadcasters who end their over-the-air analog broadcasting should retain their cable television “must carry” rights as if they continued to transmit over the air

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Retention of “Must Carry” Rights

- The 700 MHz spectrum, so well suited for new uses, is rather badly suited for the television transmissions encumbering it
- As a consequence, most viewers of channel 59–69 broadcasting today receive the signals through cable systems (or DBS), not by over-the-air transmissions
- *Example:* WRNN (Ch. 62, Kingston NY) has an over-the-air reach of only 250,000 homes but is transmitted through cable systems to 2.4 million households (*The New York Times*, April 26, 1998)
- There should be no artificial incentives for broadcasters to encumber the 700 MHz spectrum
- Broadcasters who end their over-the-air analog broadcasting should be allowed to retain their cable television “must carry” rights as if they continued to transmit over the air

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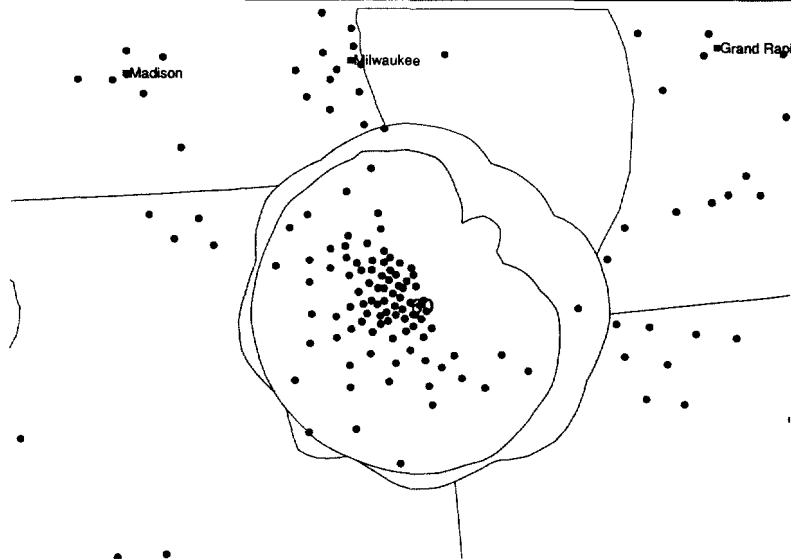
Chicago Analysis

- WEHS 60 (Aurora, IL): broadcasts off Sears Tower
- WJYS 62 (Hammond, IN): broadcasts 24 miles from Chicago (and its DT counterpart is licensed to broadcast off Sears Tower)
- WGBO 66 (Joliet, IL): broadcasts off Hancock Tower
- WEHS-DT 59 (Aurora, IL): licensed to broadcast off Sears Tower
- Collectively, they encumber 100% of the commercial band

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Chicago: UHF 60, 62, 66, 59DT



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The Spectrum Exchange Auction: Chicago

- 4 stations are needed to clear
- However, 9 comparable analog stations exist that might clear
- The auction would proceed as a “descending clock”: the auction begins with the auctioneer naming a high price and allowing it to descend toward zero
- Stations would periodically indicate whether they remain “in” (i.e., the station is willing to clear) at the current price or whether they have “dropped out” of the auction
- The auction concludes at the first time when only 4 stations (i.e., the number needed to clear) remain in the auction

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(1) Contracts with Bidders in the FCC Auction

- Bidders in the FCC Auction (wireless voice and data providers) will be asked to sign contracts agreeing — conditional on winning a license — to arrange clearing with the broadcasters who win the private auction
- Cost-sharing: 2/3 by winner of D license; 1/3 by winner of C license

(2) Contracts with Broadcasters

- Two types of contracts
 - “Incumbent broadcasters” (Channels 59–69) will be asked to sign agreements committing them either to clear (if they win the private auction) or to relocate to lower frequencies (if other stations win the private auction)
 - “Other broadcasters” (all potential clearing stations) will be asked to make their bids in the private auction contractually binding
- Incumbent broadcasters (Channels 59–69) will receive incentive payments in return for their commitment to clear or relocate, to compensate them for the cost of relocating
 - If an incumbent broadcaster (Channels 59–69) wins the private auction, then it receives both the incentive payment and the amount determined by the private auction

(3) The Private Auction

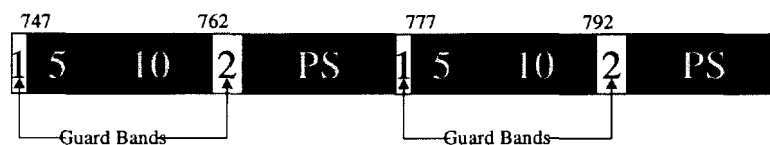
- The private auction will consist of simultaneous auctions for clearing in each major television market
- With the encumbrances cleared by the private auction, bidders in the FCC's 700 MHz Auction will be able to bid for clear spectrum, creating tremendous social value
- Without the clearing of encumbrances, the spectrum's value is only fractional

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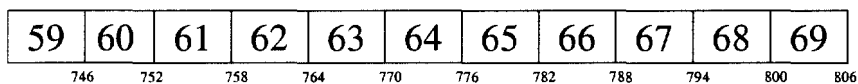
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700 MHz Band Plan

Commercial / PS Band Channels



UHF TV Channels



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